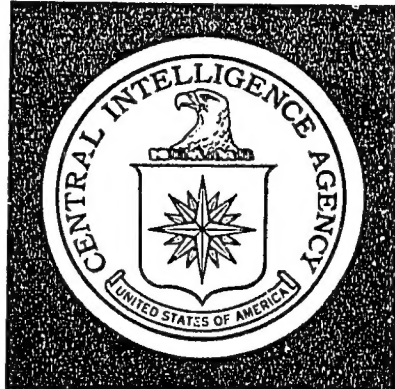


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Approved For Release 2005/01/11 : CIA-RDP85T00875R001500220050-3

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Guatemala: The Problem of Poverty

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ER IM 68-48

May 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1968

INTELLIGENCE MEMORANDUM

Guatemala: The Problem of Poverty

Summary

A majority of Guatemalans are illiterate subsistence farmers who are mired in a harsh poverty that seems intractable. They subsist on an inadequate diet and receive education, health, and welfare services that are among the poorest in Latin America. At the core of the problem of poverty are the Indians, who make up about half the total population and whose traditions lead them to avoid social integration and modernization. Although partly inspired by the poverty of the masses, the insurgency movement finds little support among the poverty stricken, in part because of their political apathy but also because of their fear of reprisals from the army and the paramilitary counterinsurgency forces.

Rural poverty reflects the failure to develop peasant agriculture. A rapidly growing population and a lack of credits, agricultural education, extension services, and incentives to small farmers have contributed to holding agricultural output below the nutritional needs of the people. Growth in agricultural production has been concentrated in a few export crops (mainly cotton and coffee) that are raised on a few large, modern farms.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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Under the best circumstances, it would take many years to make much impact on the problem of rural poverty in Guatemala. Actually, there has not even been a start in this direction, and the present economic and political situation gives the government neither the resources nor the incentive to take action soon.

Economic growth has slowed down in recent years. The export boom of the early 1960's came to an end in 1966, when President Mendez was elected. Export earnings dropped sharply in 1967 as a result of a drop in world coffee prices and in Guatemalan cotton output. A decline in imports was avoided, but only temporarily, by increasing foreign indebtedness.

Guatemala has recently secured about \$54 million in loans from international agencies for economic development, mostly for infrastructure projects including roads, water systems, and electric power generation, but has had little industrialization. Most industries produce for the small domestic market. A few modern industrial plants were built in response to the opportunities of the Central American Common Market (CACM). Recently, however, the stimulus from this source appears to have greatly weakened.

The increasing foreign exchange stringency and the insurgency problem have combined to sharply limit President Mendez's freedom of action. It is a difficult time to increase taxes on wealthy citizens so as to cut back Guatemala's chronic budget deficit or to find the financial resources needed to implement the promised land reforms and other welfare measures. At the same time, the freedom of action given to the military-backed conservative forces to combat the insurgents has increased.

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Introduction

1. In late 1967, several Maryknoll (Roman Catholic) missionaries working in Guatemala rebelled against their duties and called for a revolutionary uprising as the only solution to the country's poverty. To justify revolution, they argued that the Guatemalan masses are victims of an institutionalized "violence" embodied in the old social order:

"I believe the well-read student can say honestly /that/ the status quo is so intolerably violent that it is killing my brother /the Guatemalan peasant/ He is dying because he doesn't eat ... because he doesn't have land ... because he has no schools He realizes something is wrong with his life and he knows that it can be better. He knows that the goods and services of society do not reach him. He is willing to fight rather than deteriorate." Father Blase Bonpane

The Washington Post, 4 February 1968

The missionaries' description of economic conditions in Guatemala and their call for revolution -- which have been widely publicized -- raise a number of questions. How severe and widespread is poverty in Guatemala? What are its roots? Are conditions improving? Do economic conditions have much to do with the insurgent movement?

Extent and Roots of Poverty

2. Most of Guatemala's 5 million people are indeed poor by the standards of this hemisphere. The per capita national income of about \$275 in 1967 was about four-fifths of the average for Latin America. Current food consumption, which also is less than the average for Latin America, is well below the reference standard for an adequate diet specified by the US Department of Agriculture for Central America, which is 2,450 calories per capita per day. Finally, the concentration of income and wealth among a few probably is more severe than in most Latin American countries. The poorest three-quarters of Guatemala's inhabitants have an estimated average income of less

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than \$100 annually, or about one-eighth of the average for the most prosperous quarter of the population.* This implies a standard of living comparable to that of the poorer Asians and Africans.

3. Guatemalans rank low in Latin America not only in the quantity and quality of food consumed but in other representative measures of economic and social welfare (see Table 1). Because of the low level of income, neither the government nor most of the people have been able to spend much for education, health, and housing. The shortage of medical and educational services and deficiencies in housing are particularly severe in rural areas. Guatemalans have a higher rate of infant mortality than most Latin Americans, and their life expectancy is shorter. There are few resources or facilities to treat the sick.

4. Most Guatemalans have housing that is adequate to protect them and their few possessions from the elements, but that is all. In 1964, in rural areas, one-third of the housing units had walls of sticks and cane, one-half had thatched roofs, and nine-tenths had dirt floors. Less than one-third of Guatemalan homes had running water or sewerage systems. Electric power was available to only about one-fifth of all houses, and firewood was used as fuel in all but one-fifth.

5. Guatemala's literacy rate of about 25 percent is the lowest in Latin America except for Haiti. Educational problems include difficulties in enrolling children and keeping them in school, inadequate facilities, and a shortage of teachers. In contrast to the rest of Latin America, Guatemala's literacy rate has declined in recent years.

* This measure of average income among Guatemala's rural poor is based on data from the country's national accounts. As in other less developed countries, those accounts include few, if any, estimates for goods and services consumed by subsistence producers. Consequently, the data undoubtedly underestimate the true value of rural incomes. A more realistic figure probably is in the range of \$150 to \$200.

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Table 1

Guatemala: Indicators of Economic and Social Welfare

	<u>Latin America</u>	<u>Guatemala</u>	<u>Guatemala's Rank ^a</u>
Average daily food intake per capita, in calories	2,560	2,000	18
Average daily intake of proteins per capita, in grams	71	58	11
Life expectancy, in years	57	49	17
Infant mortality per 1,000 births	75	92	17
General mortality per 1,000 persons	14	17	16
Hospital beds per 100,000 persons	310	250	11
Inhabitants per physician	1,800	4,000	16
Literacy, in percent of total population	66	25	18

a. Among the 19 Latin American republics.

6. The roots of poverty lie partly in the economic structure of Guatemala. More than 90 percent of the rural population (or close to three-fourths of all Guatemalans) depend on primitive, subsistence-type farms or are landless. Small farms account for only about one-seventh of the agricultural land and for less than one-third of farm income (see Table 2). Although Guatemala has a considerable amount of unused agricultural land, its use is inhibited by poor transportation and communications systems, the small

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domestic market for agricultural products, lack of domestic capital, and in some instances a lack of ambition and any expectation of a better life.

Table 2

Guatemala: Distribution of Agricultural Land and Income
1950

	Percent of Total		
	<u>Number of Farm Units</u>	<u>Area of Agricultural Land</u>	<u>Amount of Farm Income</u>
Small farms (less than 17 acres)	88	14	30
Family-size farms (17 to 110 acres)	10	14	13
Medium-size and large farms (more than 110 acres)	2	72	57
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>

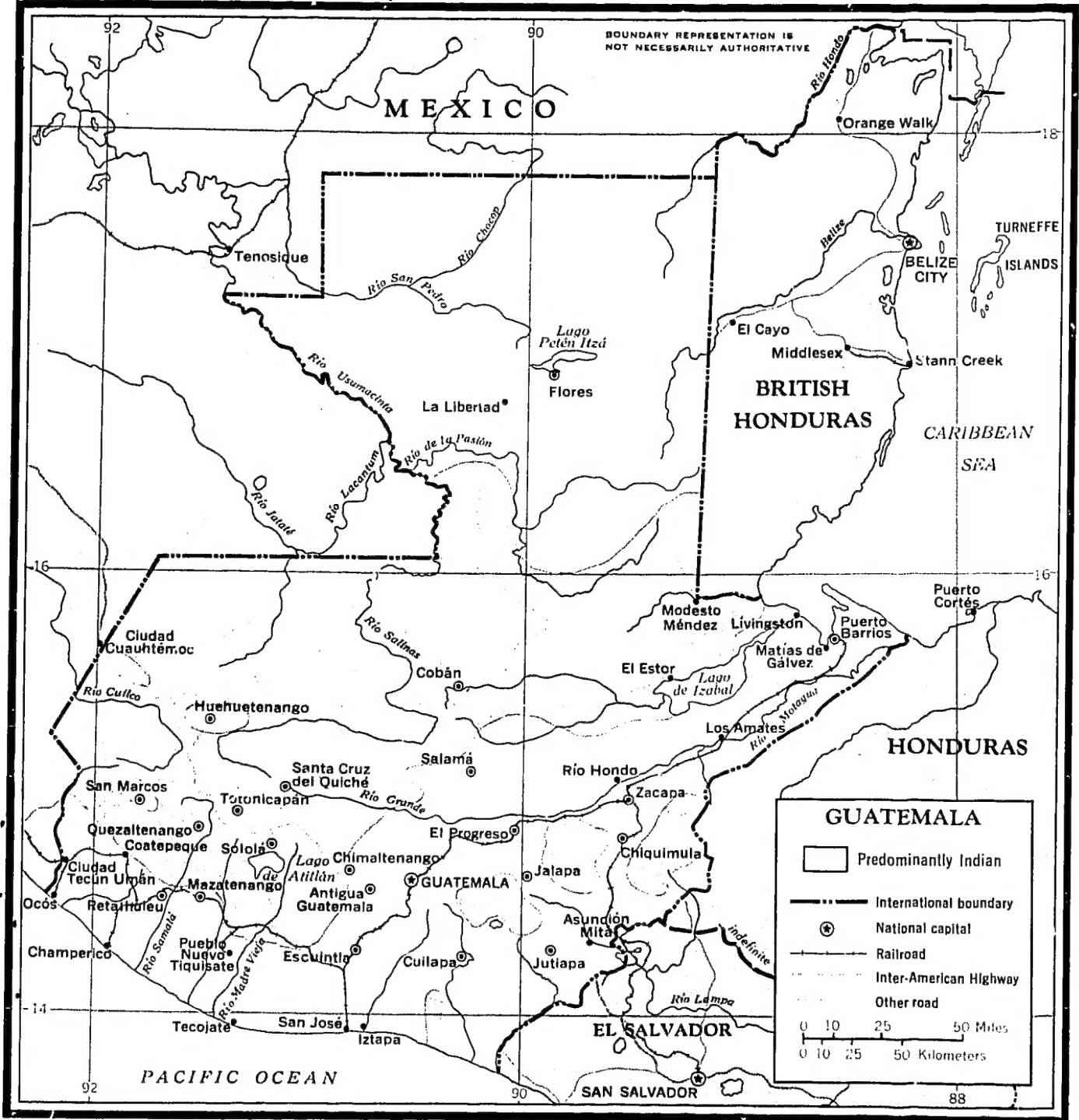
a. Including an estimate for the value of agricultural products consumed on the farm.

7. To a large extent, Guatemalan poverty is a problem of the Indian population. Concentrated in the western highlands (see the map) and culturally distinct, the Indians account for half of the population and for at least two-thirds of the subsistence farmers. Little has been done to improve the economic position of the Indians; the small efforts that have been made have been impeded by the Indians' "passive resistance" to social integration. Generally, they avoid the use of schools and other public services and disapprove of their own members who speak Spanish and adopt modern ways of life. They are unwilling, moreover, to move to the more enervating climates at lower elevations, where most of the unused land is located.

8. Economic activities other than subsistence agriculture (which support about one-fourth of the population) are dominated by the large-scale,

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GUATEMALA: Predominantly Indian Areas



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frequently mechanized production and processing of such export crops as coffee, cotton, sugar, and bananas. While they often are dynamic centers of economic activity, these farms and mills cannot permanently absorb many migrants from the subsistence sector. The growth of output and employment opportunities in large-scale agriculture, moreover, has been erratic because of the dampening effect on investment of periodic political instability and wide fluctuations in world market prices for exports.

9. Industrial development is hampered by lack of investment and by the scarcity of Guatemalan resources. Although Guatemala has some hydroelectric power potential and small nickel and sulphur deposits, there are no commercially exploitable reserves of petroleum, coal, or ferrous minerals. The country's labor force, moreover, is notably short of mechanical and managerial skills. Concentration of political power in a military-backed oligarchy of mostly large land owners (whose greatest concern is preservation of their interests) is a further barrier to growth of urban economic activities. Finally, economic gains generally are offset by additions to the population, which has doubled during the past quarter century.

The Pace of Change Through 1966

10. Living conditions for most Guatemalans have improved little during the postwar period. In most years, the growth of output and consumption has only approximated the increase in population of a little more than 3 percent. Foreign trade has been, and continues to be, the major variable affecting economic performance. In the first half of the 1950's, however, the stimulus to economic growth of rapidly rising exports and imports was offset by the depressive influence on investment of the policies carried out during the administration of the pro-Communist President Jacobo Arbenz (1951-54). The more conservative policies of President Castillo Armas (1954-57), aided by a continuing rise in foreign trade, led to a sharp expansion of the economy in 1957, but exports then stagnated and per capita output leveled off.

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11. The output of the economy grew rapidly in 1963-66 because of a sharp expansion in earnings from traditional exports and, to a lesser extent, because of new industrial investment induced by the formation of the Central American Common Market (CACM).^{*} In 1963-66, as measured by gross national product (GNP) in constant prices, output increased at an average annual rate of 7½ percent, or more than 4 percent per capita, and private consumption per capita rose at an average rate of about 3 percent. But the poor, particularly those in rural areas, did not share fully in these gains in income.

Economic Developments Under Mendez

12. The Mendez Montenegro government, which took office in mid-1966, was elected partly because of the reformist nature of its platform. Calling itself the "third government of the revolution" that was inaugurated in 1944 with a popular uprising and carried forward under the pro-Communist administrations of Presidents Arevalo (1945-50) and Arbenz (1951-54), the new administration announced four goals. In order of priority, they were (1) expansion of social services, particularly education, health, and housing, (2) tightening of internal security, (3) overhaul of the inefficient government bureaucracy, and (4) expansion of productive investment, particularly in transportation and communications facilities.

13. A slowdown in economic growth in 1967 restricted government action, and the leadership became increasingly preoccupied with the insurgent movement. The rate of economic growth, which had slowed in 1966, declined to about 3½ percent in 1967 -- mostly as a result of a drop of approximately 15 percent in export earnings. Guatemala forestalled a decline in imports only by borrowing in foreign private money markets. New CACM-related industrial investment also appears to have weakened recently. There is a widening consensus among foreign observers that internal security has absorbed most of the government's energies since the beginning of 1967.

^{*} *The other CACM members are El Salvador, Costa Rica, Honduras, and Nicaragua.*

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Economic considerations tended to be neglected as the military forces and paramilitary gangs such as the *Mano Blanca* (White Hand) reacted and over-reacted to the insurgents.

14. The insurgency, which intensified at about the time the Mendez government was inaugurated, is led by Communists and manned mainly by pro-Communist, middle-class "intellectuals and students." Even though the insurgency is in a sense a reaction to Guatemalan poverty, it has won little active support in rural areas. This failure to gain widespread support reflects the political apathy of the peasants and the success of counterinsurgency efforts that include civic action measures and ruthless elimination of those suspected of aiding the insurgents.

15. The Mendez administration has improved Guatemala's ability to obtain foreign aid by retreating from the petulant nationalism of its predecessor and resolving the "sterling debt" issue -- a dispute over bonded obligations that had prevented borrowing from some international lenders, including the International Bank for Reconstruction and Development. This action and the centralization of foreign loan acquisition in the Ministry of Finance enabled the Mendez government to secure almost \$40 million in new foreign loans from June 1966 through December 1967, or more than five times the amount secured in the previous 18 months. Drawings on foreign loans, although larger than in 1966, continued to be held down by the government's difficulties in providing the necessary matching funds. The government tried to increase revenues for this and other purposes by introducing new taxes in early 1968, but it has rescinded them because of public opposition. A National Development Plan for 1965-69, adopted by the previous administration, provides some well-formulated guidelines for public investment expenditures, but implementation of its priorities and schedules generally continues to be as weak under the Mendez government as under the previous administration.

16. In 1967 -- the first full year of the Mendez government -- public investment expenditures rose to about \$43 million (see Table 3). Virtually

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all of the increase in government outlays was for electric power facilities and road construction, especially trunk lines. Government operating expenditures in 1967 for social services and national defense amounted to \$35 million and \$17 million, respectively, and remained essentially unchanged as shares of total operating expenditure.

Table 3

Guatemala: Public Investment Expenditures
1965-67

	Million US \$		
	<u>1965</u>	<u>1966</u>	<u>Estimated 1967</u>
<i>Total</i>	40.2	35.4	42.5
Government	34.9	29.4	36.0
Agriculture	4.5	1.6	3.0
Transportation	14.0	9.3	15.7
Communications	1.2	1.5	1.3
Energy	5.8	3.8	7.0
Housing	1.3	2.7	3.0
Education	1.8	1.8	1.0
Health	3.2	4.3	3.0
Other	3.1	4.4	2.0
Public enterprises and agencies	5.3	6.0	6.5

17. The government's main effort in education has been directed to increasing the number and quality of teachers. A thousand teachers were added in 1967, and steps were taken to upgrade the quality of instruction through teacher training programs and improved facilities. Construction began on three rural hospitals, and expansion of the main hospital in Guatemala City. A project to construct 5,000 low-cost housing units, mostly in Guatemala City, also is well underway.

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18. Little has been done to attack rural poverty, particularly in the Indian areas where the Maryknoll missionaries are most active. The Mendez government has deemphasized colonization and resettlement programs for the rural populace, which were costly and benefited only a few. Instead, it plans to give title to government-owned farms to the cooperatives of farmers already working on them. But since initiation of the program in mid-1966, only two national farms (involving only a few hundred families) out of a total of 41 have been transferred. The functioning of the farms under the new owners has deteriorated because of their ignorance, lack of capital and technical assistance, and resistance to change.

19. Greater success has been achieved in the Zacapa-Izabal pilot project in the isolated and economically depressed Northeast. Several government agencies are participating in this project, which involves community development, agricultural extension services, school construction, the building or improvement of feeder roads, water supply, mobile health facilities, cooperative organization, and credit for small farmers. The government intends to apply this technique to other rural areas.

Prospects

20. The Mendez administration has not taken any bold new economic initiatives. Under the circumstance of declining exports, it could hardly have done so without massive foreign financial assistance or drastic tax reforms that might have precipitated a military *coup d'etat*. President Mendez now evidently considers that the survival of his administration to mid-1970 outweighs economic reform as a primary objective. In any case, Guatemalan poverty is so widespread and the government's resources so small that no program (including revolutionary reform of public and private institutions) can be expected to show dramatic results in less than a decade.

21. It may be difficult to take even small steps forward in 1968. Export earnings in 1968 probably will recover only moderately from the level of 1967, and the resulting slow growth in customs revenues

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will make it difficult to increase public investment expenditures. The sharply increased loan authorizations from major international lenders raised the total outstanding to about \$70 million at the end of September 1967, but the prospective slow growth of government revenues will impede disbursements from the foreign loans because of the inability to generate matching funds. Even if receipts of foreign aid increase, the gain probably will only partly offset the depressive effects in the private sector of low export earnings. Because of the unfavorable outlook for government revenues in 1968, the agrarian reform agency will operate with a budget only one-fourth as large as in 1967, and plans to extend social security coverage into rural areas have been abandoned.

22. The impoverished status of Guatemala's Indians will remain the central problem of poverty in Guatemala, and prospects for improving their situation in the near future are dim. Even a relatively large program of foreign aid probably would have little short-term effect. The political structure is not conducive to improved economic conditions for the Indians, and generations may pass before the Indians' social attitudes will be favorable for their economic advancement.

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